INFORMED BUDGETEER

COMPARISON OF 1996 & 1997 ACTUALS
(Dollars in Billions)

	1996	1997	% Growth[a]
RECEIPTS:			
Individual income taxes	656.4	737.5	12.3
Corporation income taxes	171.8	182.3	6.1
Social insurance taxes	509.4	539.4	5.9
Excise taxes	54.0	56.9	5.4
Estate and gift taxes	17.2	19.8	15.5
Customs	18.7	17.9	-4.0
Miscellaneous	25.2	25.1	-0.3
Total Receipts	**1452.8**	**1579.0**	**8.7**
On-budget	1085.3	1187.0	9.4
Off-budget	367.5	392.0	6.7
OUTLAYS:			
National Defense	265.7	270.1	1.6
International affairs	13.5	15.4	14.3
Science, space& technology	16.7	18.5	10.8
Energy	2.8	1.6	-44.2
Natrl resources & environment	21.6	21.0	-2.9
Agriculture	9.2	10.7	16.4
Commerce & housing credit	-10.5	-14.0	33.3
Transportation	39.6	39.7	0.4
Community & regional develop.	10.7	11.7	9.5
Education, training & soc. srvs.	52.0	51.5	-0.9
Health	119.1	123.4	3.7
Medicare	174.2	190.0	9.0
Income Security	226.0	230.4	1.9
Social Security	349.7	365.3	4.5
Veterans benefits & services	37.0	39.3	6.3
Administration of Justice	17.5	20.2	15.2
General Government	11.9	12.8	7.0
Net Interest	241.1	244.1	1.2
Undistributed offsetting receipts	-37.6	-50.0	32.8
Total Outlays	**1560.2**	**1601.6**	**2.7**
On-budget	1259.3	1290.6	2.5
Off-budget	300.9	311.0	3.4
DEFICIT-	**107.4**	**22.6**	**-78.9**
On budget deficit	174.0	103.6	-40.5
Off budget surplus	66.6	81.0	21.6

[a]Nominal Growth; SOURCE: Financial Management Service, Department of the Treasury. Prepared by SBC Staff, 11/3/93. Details may not add to totals due to rounding.

POINT OF ORDER MAZE

- While folks outside the beltway are navigating haystack and cornfield mazes this week, Congress is navigating the maze of Budget Act points of order and paygo sequesters. Don't be surprised if you hear a lonely voice call out "I'm lost! Where am I?"

- OMB Director Raines sent a letter to Congressional leaders on October 29 warning of the risk of a paygo sequester. Right now, OMB's paygo scorecard shows that legislation enacted since adoption of the 1997 reconciliation bills (which wiped the scorecard clean) has reduced the 1998 deficit by $11 million. If legislation is enacted in the remaining days of this session which (in total) increases the deficit by more than $11 million (based on OMB scoring) in 1998, an automatic sequester of non-exempt mandatory spending programs will be triggered.

- But wait - some optimists may see this $11 million balance as a free pass to increase the deficit. Not so fast. The Senate paygo scorecard, which is based on CBO scoring of legislation and which determines whether a sec. 202 paygo point of order lies against a bill, shows a $7 million surplus for 1998, but also shows a $156 million deficit for the period 1998-2002 and a $164 million deficit for the period 2003-2007. (The CBO and OMB paygo balances differ because CBO scored paygo effects to the Treasury-Postal appropriations bill and OMB did not).

PAY GO SCORECARDS & BUDGET AGGREGATES
Deficit Impact to Date
(Fiscal Years, $ in millions)

	1998	1999	2000	2001	2002	98-02
OMB paygo[A]	-11	6	6	3	1	5
Senate paygo[B]	-7	41	43	40	39	156
Current Level[C]:						
Revenues	-1,625	4,141	-1,149	-4,006	5,092	2,453
BudgetAuthority	-34,948	na	na	na	na	na
Outlays	1,911	na	na	na	na	na

[A]Used to determine whether there is a paygo sequester.
[B]Used to determine whether a section 202 paygo point of order lies.
[C]Current Level over/under Budget Resolution.

- Does that mean a super-optimist could still increase the deficit by $7 million in 1998, so long as there were no out-year budget impacts? Well, sorry, you run up against a wall again: section 311 of the Budget Act.

- CBO and the Budget Committees also keep track of "current level." Current level measures where the federal budget is in terms of revenues, budget authority, and outlays relative to the levels set in the budget resolution.

- For revenues, current level is $1.6 billion below the budget resolution for 1998. Any bill which results in a net reduction in revenues in 1998, even if it is deficit-neutral because it is offset by decreased mandatory spending, will have a sec. 311 point of order against it.

- For outlays, current level is $1.9 billion above the budget resolution for 1998. Any bill which results in a net increase in outlays in 1998, even if it is deficit-neutral because of a revenue offset, will have a sec. 311 point of order against it.

- We have breached the 1998 current levels mainly because the reconciliation bills cut taxes more and saved less that we expected. The budget resolution allowed a $7.4 billion tax cut and the reconciliation bills cut taxes by $9.1 billion in 1998. The budget resolution assumed $1.9 billion in outlay savings and the reconciliation bill increased spending by $0.5 billion in 1998.

NATO ENLARGEMENT: NOT JUST A SECURITY ISSUE AND NOT SUCH AN EASY VOTE

- As the *Bulletin* has reported, the Senate Budget Committee has been holding hearings on the European Monetary Union, pension and related fiscal issues in Europe, NATO enlargement, and the inter-relationship of all these issues. On October 29, the Committee held its third and last hearing on these issues and took testimony from two extraordinary witnesses. First, the committee heard former Secretary of State and the Treasury James A. Baker, who powerfully favored NATO enlargement; then, it heard Ms. Susan Eisenhower, Chairman of the Center for Political and Strategic Studies, who just as articulately opposed NATO enlargement. Ms. Eisenhower began learning about Europe as a child from one who knew it well - her grandfather.

- Secretary Baker argued that NATO enlargement is a historic opportunity which will benefit Poland, Hungary, and the Czech Republic. Enlargement will protect them from aggression and pave the way for prosperity and democracy. Ms. Eisenhower pointed out that NATO requirements for additional defense spending will burden already stretched economies and that it has already decreased their security by incurring frictions with neighbors, such as recent Slovakian threats to their Hungarian minority.

- Another argument presented by Secretary Baker was that expansion was good for our current NATO allies because it links Western and Eastern Europe and promotes stability in the east, an area where in this century two world wars and the Cold War have begun. Ms. Eisenhower observed that it was precisely such collective security "guarantees" that triggered World War I and that expansion will de-stabilize Eastern Europe by creating a new dividing line in the region between the "ins" and the "outs."
- Finally, Secretary Baker asserted that expansion was, most

importantly, advantageous for the US because it promotes stability throughout all of Europe, prevents future situations similar to Bosnia, and expands the very Alliance that prevented war for the past 48 years and won the Cold War.

- Ms. Eisenhower pointed out that future "Bosnias" are precisely what we can expect from enlargement, that Alliance membership will necessarily mean a US commitment to be involved in such conflicts, and, if anything, enlargement is particularly isolating and alienating to Russia, dimming the prospects for arms control, and increasing the prospects that Russia will seek security and prestige from a restructured nuclear arsenal and a uncooperative, if not hostile, posture.

- If there was any agreement between the two, it was that, if NATO enlargement is to occur, it should be made clear to both Eastern Europe, and perhaps the Clinton Administration as well, that US participation in the enlargement does not mean a commitment from the US to either continue our presence in the current Bosnian crisis or participate in future "Bosnias" throughout the region.

- Until recently, the issues of European Monetary Union and EU expansion were given little attention in the Senate, the question of NATO enlargement seemed one hardly needing anything more than a quick affirmative vote, and each of these issues was thoroughly compartmentalized. However, it is becoming apparent that the European economic issues deserve far more attention, that those issues are closely linked to the NATO question, and the once seemingly easy issue of NATO enlargement is a little more complex and difficult than it would first appear.

ECONOMICS

THE BIG LINK BETWEEN THE US ECONOMY AND SOUTH EAST ASIA

- The spill-over effects from South East Asia's turbulence is a reminder of the increasing linkages between global economies. Yet, most analysts have assumed that as long as the current instability stays localized in South East Asia, US economic impact will be limited.

- The US does not have a large export exposure to the South East, with only 12 percent of our exports going to this region - in fact, this constitutes only 1 percent of total US GDP. Thus, many expect that Asian developments will only shave roughly 0.2 percent from next year's prospective GDP growth.

- However, there are other channels for possible impact on the US economy. One is the prospect for official US Treasury purchases. Over the last several years, Asian central banks have been voracious buyers of dollars and Treasuries in an effort to prevent their currencies from appreciating too rapidly against the dollar. The bulk of their reserve rise is assumed to be held in dollars.

Top Five Foreign Reserve Holders
($ in billions)

	1997	1993	Change 93-97
Japan	221	90	131
China	128	21	107
Taiwan	88	86	2
Hong Kong	85	35	50
Singapore*	81	44	37
TOTAL	603	276	**327**

*Includes Gold; SOURCE: Economist magazine, IMF, National Statistics, October Snapshot.

- To put this into perspective, the sum of their yearly reserve purchases from 1993-1997 was equal to 10 percent of total stock of publicly held Treasuries! Now that these entities are no longer trying to weaken their currencies, such aggressive dollar purchases are unlikely to continue. This could take away an accustomed source of support for US debt instruments.

BUDGET QUIZ

- QUESTION: The Administration has announced an agreement between the IMF and Indonesia to provide contingent monetary support through the ESF, totaling $3 billion. What is the ESF?

- ANSWER: The Exchange Stabilization Fund (ESF) was established under the Gold Reserve Act of 1934, which authorized establishment of a Treasury Department fund to be operated under the exclusive control of the Secretary of the Treasury, with the approval of the President.

- In 1934, the ESF's purpose was to stabilize this exchange rate of the dollar relative to the value of gold. The fund was originally financed in 1934 with $200 million from monies the Treasury earned when it raised the price of its gold reserves, and thus was originally authorized to stabilize the value of the dollar by dealing in gold and foreign currencies.

- The design of the ESF is slightly ambiguous. If not all of the fund was needed to stabilize the dollar, then the fund could invest its balance with earnings deposited in the fund. The original act excluded the ESF from the appropriations process as it was intended to be self-financing. This allows the Secretary of the Treasury to intervene immediately yet secretly in foreign exchange markets and to sterilize dollars as necessary.

- At the time, the dollar's value did not rely on exchange rates of foreign currencies, but the ESF seems to have been created with an international monetary system in mind. For such a fund to exist before freely floating exchange rates and today's immense and fast international capital flows is remarkable. Subsequently, ESF has become a foreign policy as well as economic instrument of the US Treasury, especially in today's global financial markets.

- If one looks carefully at the balances of the ESF, there are assets, liabilities, and the original capital ($200 million) from 1934. At the end of September, the ESF's assets totaled $39.8 billion. The assets constitute US Treasury holdings in dollars, foreign currencies and US securities and the currency specific to the IMF - Special Drawing Rights (SDR's).

- In 1995, the US lent to Mexico $13.5 billion through the ESF to help stabilize the peso as part of a $20 billion package. Mexico repaid the entire loan, with the last installment paid this year--three years ahead of schedule.

- This was not the first time the ESF was used in such a manner. According to a 1997 article by Anna Schwartz, while the US Government first extended credits to central banks during the 1924-31 effort to return to the Gold Standard, between 1936 to 1944, the first ESF loans to countries can be traced to China, Mexico, Russia and Latin America.

CALENDAR

SBC FALL SCHEDULE:

November 4: Open Staff briefing: GAO and CBO on constraints in the DoD budget, and NATO enlargement costs and their affordability. Dirksen 608, 10:00 am.

November 5: Open Staff briefing on global warming. An overview of scientific opinion and debate on the subject of global warming. Dirksen 608, 10:00 am. (Tentative)

November 6: **Education Task Force Hearings**: Senator Bill Frist, Chairman. Witnesses include Carlotta C. Joyner, Ph.D. Director, Education and Employment Issues ,GAO, Maris A. Vinovskis, Ph.D. Professor, University of Michigan, and Madeline Will, former Assistant Secretary of Education for special education and rehabilitative services. Dirksen 608, 9:30 am.